

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Lexington Building Authority	County Sanilac
Fiscal Year End 06/30/2006	Opinion Date 10/02/2006	Date Audit Report Submitted to State 10/16/2006	

We affirm that:

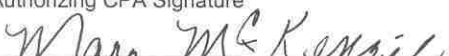
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management (report of comments and recommendations).

	YES	NO	Check each applicable box below. (See instructions for further detail.)
1.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 or the local unit has not exceeded its budget for expenditures.
3.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The local unit has adopted a budget for all required funds.
5.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	A public hearing on the budget was held in accordance with State statute.
6.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The local unit only holds deposits/investments that comply with statutory requirements.
9.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin).
10.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The local unit is free of repeated comments from previous years.
12.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The audit opinion is UNQUALIFIED.
13.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The board or council approves all invoices prior to payment as required by charter or statute.
15.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Yeo & Yeo, P.C.		Telephone Number (989) 635-7518	
Street Address 3149 Main Street, Suite #4; PO Box 218		City Marlette	State MI
		Zip 48453	
Authorizing CPA Signature 	Printed Name Mari McKenzie		License Number 1101010725

**VILLAGE OF LEXINGTON BUILDING AUTHORITY**

**Lexington, Michigan**

**Annual Financial Statements**

**and**

**Auditors' Report**

**June 30, 2006**

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**Village of Lexington Building Authority**  
**Lexington, Michigan**  
**Members of Building Authority Board**  
**June 30, 2006**

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BUILDING AUTHORITY BOARD

VIRGINIA McNABB

KIRK SHOULTS

SECRETARY

TREASURER

## **Independent Auditors' Report**

Members of Village of Lexington Building Authority  
Lexington, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Village of Lexington Building Authority as of and for the year ended June 30, 2006, which collectively comprise the Village of Lexington Building Authority basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Lexington Building Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Village of Lexington Building Authority at June 30, 2006, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information identified in the table of contents is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The Building Authority has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lexington Building Authority's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Yeo & Yeo, P.C.*

Marlette, Michigan  
October 2, 2006

# BASIC FINANCIAL STATEMENTS

**Village of Lexington Building Authority**  
**Statement of Net Assets**  
**June 30, 2006**

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Assets	
Cash	\$ 68,061
Net investment in direct financing lease	
Expected to be received within one year	8,000
Expected to be received after one year	<u>156,000</u>
Total assets	<u>\$ 232,061</u>
Liabilities and Fund Balance	
Liabilities	
Checks written against future deposits	\$ 773
General obligation bonds payable	
Due within one year	8,000
Due after one year	<u>156,000</u>
Total liabilities	<u>164,773</u>
Net assets	
Unrestricted	<u>\$ 67,288</u>

See accompanying notes to financial statement



**Village of Lexington Building Authority**  
**Statement of Activities**  
**Year Ended June 30, 2006**

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Expenses	
Operations	\$ 29,238
Interest	<u>8,600</u>
Total program expenses	<u>37,838</u>
Program revenues	
Charges for services	<u>45,421</u>
Net program expense	7,583
General revenues	
Investment earnings	<u>405</u>
Increase in net assets	7,988
Net assets-beginning of the year	<u>59,300</u>
Net assets-end of the year	<u><u>\$ 67,288</u></u>

See accompanying notes to financial statements

**Village of Lexington Building Authority**  
**Statement of Net Assets and Governmental Funds Balance Sheet**  
**June 30, 2006**

	General Fund	Debt Service Fund	Total	(Note 6) Adjustments	Statement of Net Assets
<b>Assets</b>					
Cash	\$ 68,061	\$ -	\$ 68,061	\$ -	\$ 68,061
Net investment in direct financing lease					
Expected to be received within one year	8,000	-	8,000	-	8,000
Expected to be received after one year	<u>156,000</u>	<u>-</u>	<u>156,000</u>	<u>-</u>	<u>156,000</u>
Total assets	<u>\$ 232,061</u>	<u>\$ -</u>	<u>\$ 232,061</u>	<u>\$ -</u>	<u>\$ 232,061</u>
<b>Liabilities and Fund Balance</b>					
<b>Liabilities</b>					
Checks written against future deposits	\$ -	\$ 773	\$ 773	\$ -	\$ 773
General obligation bonds payable					
Due within one year	-	-	-	8,000	8,000
Due after one year	<u>-</u>	<u>-</u>	<u>-</u>	<u>156,000</u>	<u>156,000</u>
Total liabilities	<u>-</u>	<u>773</u>	<u>773</u>	<u>164,000</u>	<u>164,773</u>
<b>Fund balances/Net assets</b>					
Reserved for financing lease	164,000	-	164,000	(164,000)	-
Designated for maintenance of building	43,648	-	43,648	(43,648)	-
Unreserved	<u>24,413</u>	<u>(773)</u>	<u>23,640</u>	<u>(23,640)</u>	<u>-</u>
Total fund balances (deficits)	<u>232,061</u>	<u>(773)</u>	<u>231,288</u>	<u>(231,288)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 232,061</u>	<u>\$ -</u>	<u>\$ 232,061</u>	<u>(67,288)</u>	<u>164,773</u>
<b>Net assets</b>					
Unrestricted				<u>\$ 67,288</u>	<u>\$ 67,288</u>

See accompanying notes to financial statements

**Village of Lexington Building Authority**  
**Statement of Activities and Governmental Fund**  
**Revenues, Expenditures, and Changes in Fund Balances**  
**Year Ended June 30, 2006**

	General	Debt Service Fund	Total	(Note 7) Adjustments	Statement of Activities
Revenues					
Interest earned - investments	\$ 405	\$ -	\$ 405	\$ -	\$ 405
Reimbursements	<u>29,246</u>	<u>16,175</u>	<u>45,421</u>	<u>-</u>	<u>45,421</u>
 Total revenues	 <u>29,651</u>	 <u>16,175</u>	 <u>45,826</u>	 <u>-</u>	 <u>45,826</u>
Expenditures/expenses					
Operating expenses	29,238	-	29,238	-	29,238
Debt service					
Principal retirement	-	8,000	8,000	(8,000)	-
interest	<u>-</u>	<u>8,600</u>	<u>8,600</u>	<u>-</u>	<u>8,600</u>
 Total expenditures	 <u>29,238</u>	 <u>16,600</u>	 <u>45,838</u>	 <u>(8,000)</u>	 <u>37,838</u>
 Excess (deficiency) of revenues over expenditures	 413	 (425)	 (12)	 8,000	 7,988
 Fund balances (deficits)/net assets - beginning of the year	 <u>231,648</u>	 <u>(348)</u>	 <u>231,300</u>	 <u>(172,000)</u>	 <u>59,300</u>
 Fund balances (deficits)/net assets - end of the year	 <u>\$ 232,061</u>	 <u>\$ (773)</u>	 <u>\$ 231,288</u>	 <u>\$ (164,000)</u>	 <u>\$ 67,288</u>

See accompanying notes to financial statements

**Village of Lexington Building Authority**  
**Notes to Financial Statements**  
**June 30, 2006**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Village of Lexington Building Authority was created during 1979 to facilitate the financing, construction and operation of a municipal building in the Village for the use of both the Village and Township of Lexington.

The accounting policies of the Village of Lexington Building Authority conform to accounting principles to generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

**Reporting Entity**

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. The Building Authority is the primary government, which has oversight responsibility and control over all activities. As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Building Authority and does not include any other component within its basic financial statements.

**Government-Wide Statements**

The statement of net assets and the statement of activities display information about the Building Authority. These statements include the financial activities of the overall government. All of the Building Authority's activities are classified as governmental activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues, reimbursements from the Village of Lexington to and Township of Lexington. Revenues that are not classified as program revenues are presented as general revenues.

**Fund Financial Statements**

The fund financial statements provide information about the Building Authority's funds. The Building Authority only has governmental funds. The emphasis of fund financial statements is on major governmental funds with all remaining governmental funds aggregated and reported as nonmajor funds.

The Building Authority reports the General Fund as a major governmental fund. It is the general operating fund of the Building Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

**Measurement Focus, Basis of Accounting**

**Government-wide Financial Statements.** The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are reported when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

**Governmental Fund Financial Statements.** All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Expenditures are generally recognized when the related fund liability is incurred.

**Assets, Liabilities and Equity**

**Deposits and Investments** - Cash includes cash on hand, demand deposits and short term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Long-term Obligations** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not

**Village of Lexington Building Authority**  
**Notes to Financial Statements**  
**June 30, 2006**

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available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and State law for the General Fund. All annual appropriations lapse at year end.

The Building Authority follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Building Authority's Treasurer submits to the Board a proposed budget by June 30<sup>th</sup> of each year.
2. The budgets for the General Fund are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Budgeted amounts are as amended.

**NOTE 3 – DEPOSITS**

*Interest rate risk* – The Building Authority does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

*Credit risk* – State statutes and the Building Authority's investment policy authorize the Building Authority to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the Building Authority is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than

270 days after the date of purchase, mutual funds, and investment pools that are composed or authorized investment vehicles.

*Concentrations of credit risk* – The Building Authority has no policy that would limit the amount that may be invested with any one issuer.

*Custodial credit risk – deposits* – In the case of deposits, this is the risk that in the event of bank failure, the Building Authority's deposits may not be returned to it. The Building Authority does not have a deposit policy for custodial credit risk. As of June 30, 2006 all of the Building Authority's bank balance was covered by Federal Depository Insurance.

**NOTE 4 – NET INVESTMENT IN DIRECT FINANCING LEASES**

The lease with the Village of Lexington Building Authority entered into concerning the Lexington Municipal Building qualifies as a direct financing lease. Under a direct financing lease fixed assets are recorded on the books of the lessee and a corresponding long-term liability is reflected in their accounting records.

The lease receivable is reduced annually by lease payments received.

Total minimum lease payments receivable	\$ 231,800
Less: unearned finance charges	<u>(67,800)</u>
Net lease receivable	<u>\$ 164,000</u>

General obligation bonds in the amount of \$285,000 with interest at five percent (5%) per annum were issued under the provision of Act No. 31, Public Acts of Michigan, 1948 as amended. Financing of the Building Authority, to include debt retirement and operational expenses will consist of the Village of Lexington contributing eighty percent (80%) and the Township of Lexington twenty percent (20%). Upon the retirement of the construction bonds which financed the facility, or at the time title is transferred to the Village, the Village will convey a tenancy in common to the Township reflecting a twenty percent (20%) interest to the Township.

**Village of Lexington Building Authority**  
**Notes to Financial Statements**  
**June 30, 2006**

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**NOTE 5 – LONG-TERM DEBT**

The following is a summary of the 1980 general obligation bond transactions of the Building Authority for the year ended June 30, 2006.

Bonds payable at July 1, 2005	\$ 172,000
Bonds retired	<u>(8,000)</u>
Bonds payable at June 30, 2006	<u>\$ 164,000</u>

The annual requirements to pay principal and interest at five percent (5%) on the obligations outstanding at June 30, 2006 are as follows:

<u>Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	8,000	8,200	16,200
2008	9,000	7,800	16,200
2009	9,000	7,350	16,800
2010	10,000	6,900	16,900
2011	10,000	6,400	16,400
2012-2016	60,000	23,800	83,800
2017-2021	<u>58,000</u>	<u>7,350</u>	<u>65,350</u>
	<u>\$ 164,000</u>	<u>\$ 67,800</u>	<u>\$ 231,650</u>

The Building Authority has the option to redeem bonds maturing in the years 2005 to 2020, inclusive, in the manner, at the times and at the prices specified on the face of the bonds.

There are a number of limitations and restrictions contained in the various bond indentures. The Building Authority is in compliance with all significant limitations and restrictions.

**NOTE 6 – DEFICIT FUND BALANCE**

The Debt Service Fund has a deficit fund balance of \$ 773 at June 30 2006.

**NOTE 7 – RECONCILIATION TO THE STATEMENT OF NET ASSETS**

Long-term liabilities applicable to the Building Authority's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities both current and long-term are reported in the statement of net assets. The balance of general obligations bonds payable at June 30, 2006 was \$ 164,000.

**NOTE 8 – RECONCILIATION TO THE STATEMENT OF ACTIVITIES**

Repayment of bond principal is reported as an expenditure in governmental funds and thus has the effect of reducing fund balance because current resources have been used. For the Building Authority as a whole, however, the principal payments reduce the liabilities in the statement of net assets and do not result as an expenditure in the statement of activities. Repayments of long-term debt for the year totaled \$ 8,000.

## REQUIRED SUPPLEMENTAL INFORMATION

**Village of Lexington Building Authority**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule - General Fund**  
**Year Ended June 30, 2006**

	Budgeted Amounts			Over (Under) Budget
	Original	Final	Actual	
Revenues				
Interest earned - investments	\$ 430	\$ 430	\$ 405	\$ (25)
Reimbursements	<u>37,245</u>	<u>37,245</u>	<u>29,246</u>	<u>(7,999)</u>
Total revenues	<u>37,675</u>	<u>37,675</u>	<u>29,651</u>	<u>(8,024)</u>
Expenditures				
Operating expenses	<u>37,245</u>	<u>30,245</u>	<u>29,238</u>	<u>(1,007)</u>
Excess (deficiency) of revenues over expenditures	430	7,430	413	(7,017)
Fund balance, July 1, 2005	<u>231,648</u>	<u>231,648</u>	<u>231,648</u>	<u>-</u>
Fund balance, June 30, 2006	<u>\$ 232,078</u>	<u>\$ 239,078</u>	<u>\$ 232,061</u>	<u>\$ (7,017)</u>



## OTHER SUPPLEMENTAL INFORMATION

**Village of Lexington Building Authority**  
**Other Supplemental Information**  
**General Fund**  
**Schedule of Operating Expenses Compared to Budget**  
**Year Ended June 30, 2006**

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	Budget	Actual	Over (Under) Budget
Building repairs and maintenance	\$ 3,000	\$ 2,207	\$ (793)
Audit and legal expense	1,500	1,600	100
Insurance	1,200	1,094	(106)
Utilities	13,400	14,038	638
Miscellaneous	200	73	(127)
Janitorial salary	7,455	7,455	-
Operating and janitorial supplies	1,200	649	(551)
Security system monitoring	600	432	(168)
Clerical expense	<u>1,690</u>	<u>1,690</u>	<u>-</u>
	<u>\$ 30,245</u>	<u>\$ 29,238</u>	<u>\$ (1,007)</u>



3149 Main Street, Suite Plaza #4  
Marlette, MI 48453  
Phone (989) 635-7518  
Fax (989) 635-3226

Village of Lexington Building Authority  
Lexington, Michigan

We have completed our audit of the Village of Lexington Building Authority for the year ended June 30, 2005. Our audit dated October 2, 2006 contained within was made in accordance with auditing standards generally accepted in the United States of America and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The system of internal control of the Village of Lexington Building Authority is adequate.

The accounting records are adequate.

The physical control over assets is adequate.

The financial records included in the audit are in agreement with accounting records of the Authority. No material or unusual adjustments were required.

All cash in banks at June 30, 2006 is deposited in institutions insured by the federal government.

The following insurance is in force at June 30, 2006:

Type of Coverage	Policy Number	Amount of Coverage	Policy Expiration Date
Property	MML001043320	\$13,332,131	3/26/2007
Liability	MML001043320	2,000,000	3/26/2007

No unsatisfactory conditions came to our attention during the year under audit.

There was no amount due from the Village of Lexington as of June 30, 2006.

There was no amount due from the Township of Lexington as of June 30, 2006.

The Village of Lexington Building Authority is exempt from federal income tax.

We would like to thank your personnel for their assistance during the audit. Should you have any questions regarding the above or if we can be of further assistance to you, please contact our office at your convenience.

*Yeo & Yeo, P.C.*

Marlette, Michigan  
October 2, 2006



3149 Main Street, Suite Plaza #4  
Marlette, MI 48453  
Phone (989) 635-7518  
Fax (989) 635-3226

October 2, 2006

To the Board of Directors  
Village of Lexington Building Authority  
Lexington, Michigan

In planning and performing our audit of the financial statements of the Village of Lexington Building Authority for the year ended June 30, 2006, we considered the Association's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated October 2, 2006, on the financial statements of the Village of Lexington Building Authority.

#### **Deficit Fund Balance**

The debt service fund has a small deficit in fund balance that has resulted from not collecting enough in revenue to cover both principal and interest payments. We recommend that you increase your allocation to the debt service fund by the amount of the deficit in order to eliminate it. To prevent this from occurring again you must make sure that the revenue allocated to the debt service fund each year is enough to cover the principal and interest payments on the debt.

We will discuss the status of these comments during our next audit engagement. We have already discussed many of the comments and suggestions with the Treasurer, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We wish to thank the Building Authority for their support and assistance during our audit. It is with pride that we count the Village of Lexington Building Authority as one of our clients.

This report is intended solely for the information and use of the Board of Directors, management and others within the Association and is not intended to be and should not be used by anyone other than these specified parties.

*Yeo & Yeo, P.C.*  
Marlette, Michigan  
October 2, 2006

